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THE COTTON SITUATION

SUMMARY

Spot cotton prices were strong during March but declined materially in the first half of April. On March 30 the 10-market average for Middling 7/8 of 14.91 cents was the highest average price recorded in these markets since May 1930. The average for March was 14.15 cents. From 14.82 cents on April 1 the price fell to 13.48 on April 16 and averaged 13.84 for the week ended April 17.

Approximately 1,150,000 bales of Government financed cotton were released between February 1 and March 31. The plan covering the release of loan stock cotton has continued in operation through April, and 93,000 bales were disposed of between April 1 and 22. Stocks of Government financed spot cotton on April 22 were down to about 1,750,000 bales compared with about 3 million bales on January 31 and nearly 5,100,000 at the end of January 1936.

Exports of cotton from the United States in March were 16 percent larger than in March 1936, but exports in the 8-month period, August through March, were 9 percent less than in the corresponding period a year earlier. Exports both in March and the 8-month period were with the exception of 1934-35 and 1935-36, much smaller than in any of the last 14 or 15 years.

Mill activity and cotton consumption in the United States continued at record high levels during March and the first part of April. In recent weeks, however, mill sales of goods have been materially below current output.

Cotton textile industries in foreign countries continue to be very active, especially in the United Kingdom and in the Orient. Foreign cotton continues to be used extensively in place of American. In March there was a sharp increase in imports of American cotton by Japan, but it is believed that a large part of this increase in imports of American was a temporary development following the interruption of trade which accompanied the recently terminated shipping strike in the United States.

Trade reports indicate that the quantity of fertilizer used in the American cotton belt this season will be considerably larger than last year and that tractors are being extensively used to replace and supplement animal power.

The first official estimate of 1936-37 cotton production in southern Brazil is for a crop of 1,201,000 bales or 28 percent larger than in 1935-36. On the basis of present estimates total Brazilian production (Northern and Southern States combined) will amount to 1,808,000 bales or slightly larger than in 1935-36.

DOMESTIC PRICES STRONG IN MARCH, DECLINED IN APRIL

Spot cotton prices at the 10 markets were very strong during March but declined considerably in the first part of April. Prices averaged 13.24 cents on March 1, rose to 14.68 on March 16, showed a moderate declining tendency during the next 10 days, then increased sharply to 14.91 cents on March 30 - the highest average recorded since May 1930. The average for the month was 14.15 cents. The average of 14.70 cents for the week ended April 3 was the highest weekly average price since May 1930.

A sustained high level of consumption by domestic mills, some improvement in exports as compared with the same period last season, and brisk activity in cotton manufacturing and in business in general throughout the world have continued to be significant price-strengthening factors; they have not been sufficient, however, to maintain prices at the point reached in late March and early April. A decline in prices began in the first week of April. From 14.82 cents on April 1 the 10-market average fell to 13.48 cents on April 16 and averaged 13.84 cents for the week ended April 17. This abrupt decline in cotton prices has accompanied a sharp fall in the prices of a number of other basic commodities.

The prices of foreign cottons at Liverpool, expressed as a percentage of American, did not show any important changes in March compared with February. For the most part, the rise in the price of American in March was accompanied by a corresponding change in the price of foreign cottons. On an average during March, Egyptian Uppers and Brazilian Sao Paulo Fair, especially the former, were dearer relative to American than a month earlier, but Indian and Peruvian were slightly cheaper. Egyptian and Peruvian were higher relative to American than they were a year earlier but Indian and Brazilian were lower than in the corresponding month of 1936. Since the decline in the price of American cotton at Liverpool in the first half of April was not accompanied by a corresponding fall in the prices of foreign growths, an increase in the ratios of their prices to American has been the result.

RELEASE OF GOVERNMENT-FINANCED COTTON CONTINUED

The Commodity Credit Corporation announced on April 1 that the marketing plan for releasing Government-financed cotton into trade channels would be continued through April subject to change in the price, terms, or conditions on five days notice through the public press and Reconstruction Finance Agencies. Approximately 1,150,000 bales of loan cotton were disposed of during February and March and 93,000 bales in the first 22 days of April. In the year ended April 1 the Commodity Credit Corporation and the Reconstruction Finance Corporation released to the producer-borrowers and their assigns about 2,550,000 bales of loan-stock cotton. Stocks of Government-financed spot cotton at 6-month intervals during the last 3 years are shown below.

Date	Cotton option and producers' pool	Commodity Credit Corporation loans	Total
	<u>Bales</u>	<u>Bales</u>	<u>Bales</u>
End of month:			
1934			
July	1,890,550	1,111,669	3,002,219
1935			
Jan.	1,469,833	4,061,211	5,531,094
July	628,546	4,459,520	5,088,066
1936			
Jan.	617,267	4,478,126	5,095,393
July	119	3,237,015	3,237,134
1937			
Jan.	-	3,000,000	3,000,000
Mar.	-	1,850,000	1,850,000

The first one million bales of spot cotton released from the loan stock between April 18 and June 1, 1936, were at a minimum base price of 11.25 cents for middling 7/8, but they netted the Corporation a little more than this. The next 400,000 bales were released between June 27 and July 20, 1936, at a minimum base price of 12.25 cents, the average price actually received being somewhat higher. The 1,150,000 bales released in February and March this year were to be sold at a minimum base price of 12.75 cents but the average received by the Commodity Credit Corporation for cotton disposed of during the two months probably averaged approximately 13.50 cents.

The fact that the supply of "free" American cotton in trade channels has been augmented by the disposal of this large quantity of Government-financed cotton has contributed to the record high level of cotton consumption in the United States and has kept exports and foreign consumption of American from being as small as would otherwise have been the case. On the other hand the very brisk demand of the American cotton industry for American cotton and the high level of mill activity and consumption of all kinds of cotton in foreign countries have been responsible for the release of such large quantities of loan cotton at the terms prescribed by the Commodity Credit Corporation.

As was pointed out in The Cotton Situation for March, sales of loan cotton were stimulated to an important degree during February and March by the facts that (1) the release prices on any given day are based on the 10-market average price for Middling spot on the previous day and that (2) the market was advancing during a large part of that period. The rate at which loan cotton has been released has slackened considerably since April 1. From April 1 to April 22, inclusive, only 93,000 bales were released. This recent slackening in the rate of movement may be due to several factors, including an increase in mill stocks in this country, a growing scarcity of desirable qualities to be found in the loan stock, and declining prices between April 1 and April 22.

EXPORTS FROM UNITED STATES IN MARCH ABOVE YEAR EARLIER

Domestic exports of cotton from the United States were 468,000 bales in March or 16 percent larger than in March 1936. But with the exception of last year and the year before, exports were smaller than in the corresponding month in any year since 1923-24.

Exports from the United States, specified periods,
average 1924-33, annual 1929-37

Year	March	8 months ended March	Total for 12 months ended July 31
	<u>Running bales</u>	<u>Running bales</u>	<u>Running bales</u>
Av. 1924-33	626,900	6,323,800	7,830,200
1929	556,000	6,746,100	8,043,600
1930	477,700	5,770,300	6,689,800
1931	605,500	5,517,300	6,759,900
1932	927,100	6,852,400	8,707,500
1933	488,000	6,084,700	8,419,400
1934	550,100	6,098,000	7,534,400
1935	317,800	3,572,000	4,793,500
1936	404,700	4,814,400	5,972,600
1937	467,700	4,389,200	

Exports in the 8-month period ended March were 9 percent less than in the corresponding period last season. Should exports during the remainder of the present year maintain the marked improvement shown in February and March, exports in 1936-37 will be approximately the same as in 1935-36. Trade reports for the first half of April, however, indicate that the improvement shown in February and March may not be maintained in April.

EXPORTS FROM FOREIGN COUNTRIES HEAVY

Exports from India in February amounted to 371,600 bales of 478 pounds compared with 419,400 bales in February 1936 and an average of 360,300 in the 10 years ended 1932-33. In the 7-month period ended with February, exports totaling 1,830,300 bales were 29 percent larger than the corresponding period last year, about the same percentage larger than the 10-year average, and the largest for the period on record with the exception of 1930-31.

Exports of cotton from Egypt continued to run at record-breaking levels with shipments to all countries amounting to 213,600 bales in February and 172,700 bales in March, an increase of 68 percent and 54 percent, respectively, over the corresponding months a year earlier. Exports of 1,438,300 bales in the 8 months ended March constituted a record high for the period.

THE TEXTILE SITUATION

Domestic mill activity continues high - mill sales drop off in recent weeks

Domestic cotton consumption in March was the highest for any month on record, amounting to 779,000 bales. In the 8-month period ended March, domestic mills consumed 5,292,000 bales which was the largest consumption for the period in history. In the latter half of March and the first 3 weeks of April mill sales of goods were reported to have been materially less than current output. The volume of unfilled orders held by mills, however, has been very large and mill activity has been generally well maintained, even though activity may have declined slightly in the first half of April. Any decline which may have occurred is reported to have been the result of an inauguration of a 40-hour week in some mills.

Increases in goods prices in March accompanied the rise in cotton prices so that mill margins (based on 17 constructions of gray cloth) for the month, as a whole, remained very high. The average for March was 17.84 cents compared with 17.86 in February, and with 12.73 cents in March 1936. The fall in raw cotton prices since April 1 has raised margins higher since cloth prices did not decline proportionately. The average was 18.22^{cents} for the week ended April 9 and 18.63 cents for the week ended April 16.

European mills active - but cotton consumption still below 1929 level 1/

While mill consumption of raw cotton in Europe is running at a higher level than in recent years it is still 15 percent below consumption in 1929. This is due partly to the practical cessation of consumption in Spain and partly to the substitution of synthetic fibers for cotton in Germany and Italy. Mill activity is therefore proportionately higher than cotton consumption in those two countries. However, the lower consumption of all cotton compared with 1929 is also partly due to an all-around lower level of mill activity and cotton utilization than in 1929, especially on the Continent. While domestic demand for cotton goods ranges from fair to exceptionally good in most countries, in all cases the export trade is much smaller than in the years just preceding the world depression. The record high level of world consumption of all cotton is a result of the very active condition of the cotton industries in the United States and in Oriental countries.

United Kingdom - The outstanding development in the cotton industry in the United Kingdom during March was a rapid increase in mill takings of Indian cotton to a level almost equal to mill takings of American cotton. The price of Indian relative to American during March was such as to favor the consumption of Indian. Since the first of August 1936, mill takings of both Indian and Brazilian cotton have shown a considerable increase, while takings of American cotton have declined.

1/ Prepared partly from a report from Agricultural Attaché Lloyd V. Steere, Berlin, under date of April 9, 1937.

The high level of activity in British cotton mills continued to rest mainly on domestic demand. The number of workers employed in March was larger than in any month in recent years. Domestic retail sales of cotton textiles continue to show a favorable trend. Higher prices for yarn and cloth undoubtedly have tended to check the export trade. In February, exports of piece goods amounted to 164,400,000 square yards compared with 169,500,000 square yards in the corresponding month a year earlier. In March, however, exports of 178,600,000 square yards were larger than shipments in March 1936.

Germany - Activity in the German cotton textile mills continued relatively high during March, although supplies of raw materials, both cotton and synthetic fibers, were not large enough to meet mill needs during part of the month. Supplies of raw cotton in the country are still very small and the manufacturing quotas fixed by the Supervisory Office have not been fully covered by the raw material allotments. It is reported that there is a constant increase in the utilization of rayon staple fiber.

A recent survey of the German Institute for Business Research indicates that German production of staple fiber rose from 33,200 bales of 478 pounds in 1934 to 71,950 bales in 1935 and 207,550 bales in 1936. For the year 1937 the Institute expects a production of from 323,000 to 346,000 bales which at the present level of consumption would be the equivalent of between 8 and 9 percent of all textile raw materials used in Germany, excluding reclaimed material. It would amount to more than 20 percent of German raw cotton consumption in the years just preceding 1934. The completion of additional factory capacity now under construction will apparently almost double German productive capacity for staple fiber.

Until recently, German cotton mills have been considerably handicapped by the price regulations promulgated last fall which prohibited any further increase in the price of cotton goods regardless of the movement of manufacturing costs. No allowance was made for changes in the price of imported raw materials. This situation has been remedied by the special permission of the Price Commissioner authorizing domestic prices of textiles to be increased by an amount necessitated by increases in the price of raw materials.

Czechoslovakia - Conditions in the Czechoslovakian cotton textile industry showed further improvement in March and it is reported that, despite considerable variation between mills, employment in the cotton textile industry as a whole was at a high level. A considerable volume of new orders was booked for the domestic market, and export developments were comparatively favorable. Indicative of the high degree of activity in the textile industry as a whole is the fact that cotton consumption by textile mills in February 1937 was 35 percent greater than in February 1936. This applies to all textile mills taken together and not merely cotton mills.

Austria - Cotton spinning mill activity in Austria was still running at about 10 percent above single shift capacity, or slightly below a year earlier. The Austrian export trade in cotton yarn was adversely affected in March as a result of a slackening of business with Rumania which has a new trade agreement with Italy providing for the exchange of Rumanian crude oil for Italian cotton yarn. Another factor unfavorable to the export trade was the rise in the price of cotton goods as a result of the operation of a cotton weavers' cartel. In general, however, the Austrian cotton textile industry is in a fairly good position; and prospects seem very satisfactory unless Rumania, which takes about 80 percent of all Austrian cotton yarn exports, should drastically and permanently curtail her demand for Austrian yarn.

France - Conditions in the French cotton textile industry are relatively favorable and cotton spinners as well as weavers are well occupied. New business was of satisfactory volume during the month of March and it seems likely that the present rate of mill activity will be maintained for some time to come as the unfilled orders on hand are sufficient to engage the mills at the current high rate of occupation for several months ahead.

Italy - The accelerated activity of the Italian cotton industry, as evidenced during the first two months of 1937, was continued throughout March. Since manufacturers' supplies of raw cotton depend on their exports of yarns and piece goods, mills are favoring the export trade; as a result, domestic demand for cotton and substitute textiles is not being fully satisfied. Prices actually paid by consumers have risen considerably, presumably much beyond the increases authorized on March 5, 1937, which permitted an increase in retail prices for cotton textiles of 12 percent compared with September 1936. A price increase of 10 percent was authorized for artificial fibers.

Favorable export business, especially with countries with which Italy has barter and clearing arrangements, and a resultant high level of mill activity have necessitated a considerable increase in the importation of raw cotton. Imports in January and February were 40 percent larger than in the same months in 1936. American cotton represented 60 percent of total cotton imports.

Japanese and Chinese consumption high - Japanese imports of American cotton increase 1/

Japan - Imports of all cotton in March totaled 522,000 bales compared with 334,000 in March 1936. This large increase compared with the corresponding month a year earlier resulted mainly from the very large imports of American, which amounted to 205,000 bales. Imports of American cotton were three times as large as in February and nearly twice as large as in March 1936. Imports of other kinds of cotton in March also were larger than

1/ Prepared largely from cables received from Agricultural Commissioner O. L. Dawson at Shanghai under date of April 12 and 20.

year earlier but by a much smaller margin than was true of American. It is believed that these very heavy receipts of American cotton have been a temporary result of the recent termination of the shipping strike in the United States which had interrupted movement from this country. During March the relationship between the prices of American and Indian cotton in Japan was about the same as in earlier months when the relationship was such as to encourage the consumption of Indian at the expense of American. The price of Brazilian cotton of a grade and staple comparable with American also favors the use of Brazilian by Japanese spinners, but there has been some scarcity of desirable qualities of Brazilian cotton in the Japanese market. In the 7 months ended March 1937 imports of American into Japan totaled 1,032,000 bales compared with 1,116,000 in the corresponding period a year earlier. On the other hand, imports of all cotton amounted to 2,638,000 bales, which was 27 percent more than last season.

The import licensing system, which places restrictions upon allotments of foreign exchange for imports, is reported to be causing some difficulty to importers of cotton, particularly small dealers, but it is not believed that the licensing system is having a significant effect upon total cotton imports. As a result of the very heavy receipts in March, wharf stocks of all cotton in Japan on March 31 amounted to 793,000 bales compared with 492,000 at the end of February, and with 453,000 on March 31, 1936.

The Government has banned dealings in cotton futures on Japanese markets on the ground that cotton is a commodity of vital importance to the country's welfare and that it should not be subject to speculative activity.

Yarn production in March was 325,875 bales, the largest yarn output for any March on record.

China - Arrivals of Chinese raw cotton at Shanghai were very heavy during March, being considerably larger than in February and approximately 15 percent above arrivals in March a year ago. In spite of the heavy arrivals of cotton, the very high level of mill consumption kept stocks from showing any increase as compared with a month earlier. Chinese mills are continuing to operate at full capacity. Increased spinning mill equipment in North China is expected to come into operation by the end of April, with a resulting increase in the production of cotton goods in that area.

The Government is planning an increase in taxes on yarn which will amount to about 10 percent over present rates on counts up to 16; 27 percent on counts 17 to 23; 21 percent on counts 24 to 35; and 61 percent on counts 36 and above; although for some special kinds of goods which are 36 count and above, the new specific rates will be less than existing ad valorem taxes. In any event the increased taxes, assuming that they were to be added immediately and in full to the sale price, would increase present wholesale prices for the different qualities of yarn by only from .4 of 1 percent to 1.8 percent. It is not believed that cotton consumption will be materially affected.

Prices of Chinese cotton during March and April tended to move with the prices of cotton in world markets, and exports of Chinese cotton continue to be small.

ACREAGE, PRODUCTION, AND CROP CONDITIONS

United States - It is reported by the New York Cotton Exchange Service that fertilizer tag sales in cotton growing States from December to March confirmed beliefs already held in fertilizer trade circles that the cotton crop now being planted will be better fertilized than any previous crop since that of 1930. The Exchange Service estimates that 1,640,000 tons of fertilizer will be used on cotton this season compared with 1,312,000 tons last year. It is believed that there will be an increase both in the acreage fertilized and in the fertilizer applied per acre. It also is reported by the trade that the scarcity of work stock in the South is being offset to a considerable extent by an increased use of tractors. This is especially true in the western part of the Belt.

During the past few weeks weather in the Cotton Belt was rather unfavorable to the new crop because of subnormal temperatures during much of the period and an absence of rain over most of Texas and Oklahoma, according to the Exchange Service. The quarterly report of the Department of Agriculture which shows the farm labor situation on April 1 bears out the January report in showing that in the Southern States the supply of labor is smaller and farm wage rates considerably higher than last year.

India - The final estimate of the Indian Government places the Indian cotton area for 1936-37 at 25,219,000 acres and production at 5,278,000 bales compared with 25,999,000 acres and 4,965,000 bales in 1935-36. In the 10 years ended 1932-33 cotton acreage averaged 24,761,000 acres and the average production amounted to 4,466,000 bales.

Egypt - Ginnings of all varieties including Scarto up to April 1 totaled 1,860,000 bales, an increase of 11 percent over ginnings to the corresponding date last year. Ginnings of Sakellaridis continued to run much below last year.

China - It was pointed out in The Cotton Situation for March that last season's large crop and the comparatively high prices received by farmers for their cotton would tend to result in an increase in the 1937-38 cotton acreage. This seems more likely now than a month ago because of the occurrence of rains during the past month in some parts of the cotton area in northern China. While some sections still require additional moisture for the planting and early growth of the crop, on the whole the moisture deficiency is reported to be less serious than formerly. In the meantime weather conditions in the Yangtze Valley continue to be favorable to the planting of a larger acreage in 1937 than in 1936.

Brazil - The first estimate of the cotton crop of southern Brazil for 1936-37 is for an output of 1,201,000 bales. Production in 1935-36 amounted to 939,000 bales, 1934-35 to 576,000, and in the 10 years ended 1932-33 averaged only 107,000 bales. The third estimate of production in the northern States of Brazil places output at 607,000 bales compared with 826,000 in 1935-36, 782,000 in 1934-35, and the 10-year average of 423,000 bales. On the basis of these present estimates, total production of cotton in Brazil in the 1936-37 season will be 1,808,000 bales, or slightly larger than production of 1,765,000 in 1935-36. In the 10 years ended 1932-33, Brazilian cotton production averaged only 530,000 bales.

While the crop in the northern States is now estimated to be about one-fourth smaller than last season, the increase of 270,000 bales or 28 percent of the crop in the southern States more than offsets the decrease in the North. Apparently, this season is seeing a continuance of the pronounced tendency of the last few years for southern Brazil to increase in importance as a cotton growing area relative to the northern States. In the Sao Paulo area, cotton is approaching a position where it will soon rival or surpass coffee as the principal source of agricultural income. From the point of view of gross value, coffee is still considerably ahead of cotton but the actual gross income of farmers from the present cotton crop promises to be not much below the income from coffee. The latter commodity is subject to heavy State and Federal coffee taxes while cotton is free of taxes except a sales tax which also applies to coffee. Indicative of the increased importance of Brazilian cotton in world markets was the announcement by the Liverpool Cotton Exchange that from February 1 onward it would accept the Brazilian classification of cotton.

